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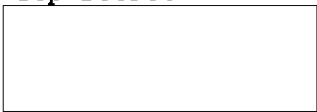
22 December 1982

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Contents

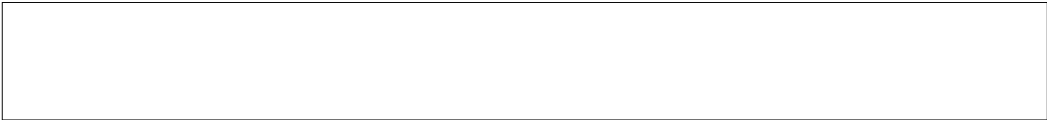
USSR: *Andropov's Speech* 1

Western Europe - USSR: *Reactions to Andropov's Speech* . . 2

Mexico: *Budget for 1983* 3

El Salvador: *Political Maneuvering* 4

USSR-Italy-Bulgaria: *Coming to Bulgaria's Defense* 5



25X1

International: *Maneuvering in the Nonaligned Movement* . . 6

China: *Trade Targets for 1983* 7



25X1

Special Analysis

Israel: *Public Opinion and the West Bank* 8



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25X1

25X1

Top Secret

25X1

USSR: Andropov's Speech

General Secretary Andropov's speech yesterday clearly fore-shadows an intensified campaign to disrupt NATO's INF plans, but provides few clues about the direction of domestic policy in coming months. [redacted]

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//Despite warnings of "grave consequences" if NATO proceeds with deployments, Andropov appeared to direct threats of military countermeasures primarily at the US. His apparent reluctance explicitly to threaten Western Europe may reflect a belief that the lure of arms control is likely to be more effective in undermining NATO's solidarity--at least until INF deployments appear inevitable. Andropov separately stated it was "absurd" to think the USSR could agree to the US START proposal--although he was somewhat more positive concerning confidence-building measures--and he tied prospective Soviet deployments of a long-range cruise missile and an ICBM similar to the MX to US intentions of deploying such systems.//

[redacted]

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//The General Secretary's attention to foreign policy also could be an indication that the regime has yet to formulate a comprehensive plan for attacking economic problems. Personnel and organizational changes suggest, however, that such planning is under way, and announcements of new domestic initiatives may come at the party plenum in the spring. A senior party official claimed publicly on Monday that a president would not be named at the current session of the Supreme Soviet.//

[redacted]

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WESTERN EUROPE - USSR: Reactions to Andropov's Speech

//The UK and France yesterday rejected General Secretary Andropov's proposal to reduce Soviet "medium-range" missiles in Europe to a number equivalent to the British and French missile forces.//

//Prime Minister Thatcher told Parliament that Andropov's offer would upset the security balance in Europe by preventing deployment of US Pershing II and ground-launched cruise missiles. She noted the proposal would permit the USSR to retain a monopoly over the US in land-based INF missiles, leading to a decoupling of the US strategic nuclear deterrent from European security.//

//French Foreign Minister Cheysson characterized the speech as a ploy to divert attention from the power imbalance in Europe caused by the buildup of Soviet missiles. He reiterated support for the US "zero option" INF negotiating position. France, he said, had never accepted the idea of its strategic nuclear force being included in INF arms control calculations.//

//An official West German spokesman said that, while Moscow's proposal should be taken seriously, he believed it would only solidify the USSR's INF superiority.//

Comment: //Initial Allied responses last week to the public reports anticipating the proposal calling for a ceiling on INF missiles linked to British and French systems were largely negative. British and French resistance probably has been intensified by the limits Andropov's plan would place on their nuclear modernization programs.//

//NATO governments almost certainly will continue to resist Soviet proposals that would eliminate all US INF in Europe but permit retention of sizable numbers of SS-20s. Public statements by the Italian, West German, British, and other governments did indicate initially, however, that the USSR's offer to consider a ceiling on land-based INF missiles could be a step in the right direction, a feeling that probably will grow as the Soviet propaganda effort gathers steam. The Allies will want the US to consider seriously at Geneva all Soviet offers in order to win public support for INF deployments late in 1983.//

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MEXICO: Budget for 1983

The new administration probably will be unable to adhere to its austere budget for 1983, which would cause Mexico to fail to meet the IMF target for its public-sector deficit.

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To reduce this deficit, the budget announced last week mandates a 30-percent increase in revenues and a 20-percent reduction in spending. Government ministries are required to cut back their expenditures by an average of 25 percent in real terms.

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The budget also includes a moderate increase in consumer subsidies in order to protect those most in need. In addition, it contains an emergency highway redevelopment project calculated to create 500,000 to 700,000 temporary jobs.

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Comment: If Mexico City can adhere to this budget, lower government spending probably will reduce economic growth by 4 percent in 1983. Government ministries, however, will resist the deep cuts, which can only be achieved if public employment is lowered by 20 percent. The bureaucracy is likely to continue overspending and probably will manage to work around the new mechanisms that are designed to end persistent overruns.

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Projected revenue increases appear too optimistic because price controls on basic goods are likely to slow revenues from government-owned businesses. The state oil monopoly probably will limit tax remittances to the central government to \$10 billion, rather than pay the \$11 billion the budget projects, to prevent cutting already barebone operations another 10 percent. Moreover, because of a falloff in economic activity in 1983, receipts from the higher value-added tax could fall 20 percent below projected revenues.

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If President de la Madrid is unable to follow through on his proposed budget, Mexico is almost certain to have to renegotiate some targets with the IMF later in the year. Failure to meet the IMF goals probably would also hold up funds from international commercial lenders, causing a temporary gap in financing until a new agreement with the IMF is arranged.

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EL SALVADOR: Political Maneuvering

President Magana's request that the 12 political appointees in his cabinet offer their resignations is being resisted by all three parties in the coalition government. [redacted]

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//Magana hopes to replace a few conservative ministers handling agrarian reform and commercial matters, whom he views as incompetent and politically disruptive. The three parties oppose any move that will alter the equal division of power, although each reportedly is willing to permit pro forma resignations if the balance of power is maintained. Magana has not requested resignations from the three independent ministers he appointed.//

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//The President wants to bring other parties into the governing process, strengthen the hand of the judiciary on human rights, and begin repairing the economy. He remains less positive, however, regarding a strategy to end the war. For example, he does not believe the long-awaited "peace commission" is likely to be announced until February and envisions it will be downgraded to a subcommittee within the existing Political Commission.//

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Comment: Magana is demonstrating greater initiative since his talks early this month with President Reagan in Costa Rica. Although his efforts could precipitate a power struggle, he and other political leaders probably again will reach a compromise over the distribution of government posts. Nevertheless, Magana's continuing efforts to strengthen his presidency are likely to cause strains with the parties. [redacted]

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USSR-ITALY-BULGARIA: Coming to Bulgaria's Defense

//Moscow's recent public statement denying involvement in the assassination attempt on the Pope and the strong protest over US press coverage delivered by the Soviet Charge in Washington on Monday indicate the Soviets have decided to play a more active role in countering Western charges of Bulgarian complicity. Last Friday, the Soviet Ambassador to Rome told an Italian reporter that "if necessary measures are not adopted" allegations of Bulgarian involvement could affect Soviet-Italian relations.//

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Comment: Moscow until recently has avoided direct involvement in the controversy, and its activism suggests new concern that the case is damaging the USSR's interests. The Soviets may be particularly sensitive to the issue because of the Western press implications that General Secretary Andropov, during his tenure as head of the KGB, might have played a role in the attempt. The Soviet Ambassador presumably hoped to persuade the Italian Government to play down the issue. The Soviets are likely to continue to defend Bulgaria against its accusers.

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INTERNATIONAL: Maneuvering in the Nonaligned Movement

//Cuba, as chairman of the Nonaligned Movement, and Nicaragua are circulating a draft communique--for the ministerial conference to be held from 10 to 14 January--accusing the US of "imperialism" in Central America. Radicals hope the condemnation will set the stage for a similar resolution at the more important Nonaligned Summit scheduled for March in India. Some moderates, led by Yugoslavia and Egypt, find the draft's denunciation of the US totally unacceptable.

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Comment: The moderates have been increasingly assertive in challenging Cuba's leadership. To avoid splitting the movement, however, they may decide to try to amend the radicals' draft. The moderates hope to capture the movement's leadership when Cuba relinquishes the chairmanship to India in March, and this factor also may temper their actions in Managua.

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CHINA: Trade Targets for 1983

China's economic plan for 1983 calls for imports to increase by 25 percent over this year, reflecting the continuing need for Western equipment and technology for modernizing the economy. According to the projections, imports would reach \$20 billion, surpassing the record in 1980 of \$19.3 billion. The increase--after two years of cutbacks--is to help improve key industries and develop the infrastructure. Beijing says exports will increase by 4.8 percent, which would help keep the trade deficit down to about \$1.5 billion in 1983.

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Comment: The Chinese will buy more steel and machinery from Japan and more fertilizer, machinery, and technology from the US. Beijing usually underestimates the growth of exports and probably is overly pessimistic about a deficit in 1983. China probably will realize a small surplus in the coming year.

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Special Analysis

ISRAEL: Public Opinion and the West Bank

//In Israel's continuing national debate about the future of the West Bank, Prime Minister Begin has strong popular support for some aspects of his hardline policy. Polling data indicate the public considers the West Bank vital to Israel's security and opposes a return to the border as it was in 1967, establishment of an independent Palestinian state, or negotiations with the PLO. Opinion is deeply split about the ultimate status of the West Bank, however, and support for Begin's aggressive Jewish settlement policy has fluctuated.// [redacted]

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//There is widespread agreement in Israel on West Bank issues that are considered to involve major security interests. One dominant and persistent theme, for example, is that security would be unacceptably jeopardized by withdrawal to the pre-1967 borders.// [redacted]

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//An overwhelming majority of Israelis oppose the establishment of a Palestinian state on the West Bank. They also agree peace negotiations should not include the PLO. There is deep fear and mistrust of the PLO, and, in one recent survey, three-fourths approved of the anti-PLO operation in Lebanon.// [redacted]

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//The antipathy with which Israelis view a separate Palestinian state and the PLO probably contributes to their strong belief in the importance of Jordan in any future negotiations concerning the West Bank. This belief has not been changed by longstanding skepticism about the likelihood of Jordanian participation or by Begin's opposition to the US Middle East initiative.// [redacted]

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Divergent Views

//Opinion has been inconsistent, however, on some issues important to the future of the occupied territories. The US Embassy has noted the public is divided on whether to absorb the West Bank and Gaza or to trade some part of it for peace. This also is a major ideological difference between the Likud government and the Labor Party.// [redacted]

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//More than half of the Israelis polled last June favored keeping all of the West Bank and Gaza. At the same time, however, they affirmed the importance of maintaining Israel's Jewish character. They did so knowing that that character would be diluted by incorporating the predominantly Arab populations of the territories.//

//Attitudes toward Jewish settlements on the West Bank also have fluctuated, reflecting changing views of the peace process and the Begin government's overall performance. The most recent data show that, while debate continues over the ultimate status of the territories, a majority supports continued settlement expansion.//

//Public reaction to the US peace initiative has been largely negative, but Begin's rejection does not have majority support. One survey last month, for example, found 48 percent rejected the plan, 40 percent would accept it as a basis for negotiation, and 4 percent accepted it outright.//

//Possible damage to US-Israeli relations is a factor in the divided response to Begin's position. A large majority, however, evidently does not believe the US commitment to Israel's security has been affected.//

Voter Profiles

//Groups from which Begin and Likud draw much of their support--Sephardi Jews, younger voters, and lower income groups--consistently take the most hawkish positions on settlements and the status of the territories. Those holding more moderate views, who generally support the Labor Party, are in the minority.//

//The political influence of the more hawkish groups is likely to grow in coming years, especially as the percentage of native-born Israelis of Sephardi origin increases. Most Israeli demographers believe the Sephardim now constitute the majority of Israel's Jewish population, and their majority probably will increase over time.//

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Implications

//The polls suggest many Israelis are somewhat more willing than the government to compromise on the ultimate status of the West Bank and Gaza, but only if they believe their security interests are protected. As a result, events affecting the public's confidence in Israel's security are likely to have an important impact on opinion concerning the West Bank.//

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//If other Arab states were to join Egypt in recognizing Israel, the number of those who favor some territorial adjustments and who oppose more settlements probably would increase. On the other hand, opinion about the West Bank probably would harden if the public believed it was threatened by a deterioration in relations with Egypt, by a stalemate in negotiations, or by pressure from abroad that tried to extract concessions.//

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//Israeli security concerns will make it difficult to win majority support for a large-scale evacuation of the West Bank and Gaza or for the removal of existing settlements there. On balance, the development of opposition strong enough to impede the government's West Bank policies seems unlikely.//

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